

JUN 11 2021

FILED

CERTIFICATION

June 11, 2021

I, Eric Dunning, Director of Insurance of the State of Nebraska, do hereby certify that the attached is a full and correct copy of the Financial Examination Report of

CENSTAT CASUALTY COMPANY

AS OF

DECEMBER 31, 2019

The report is now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.





DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

CENSTAT CASUALTY COMPANY

1212 NORTH 96TH STREET

OMAHA, NEBRASKA 68114

dated as of December 31, 2019, verified under oath by the examiner-in-charge on
June 3, 2021, and received by the company on June 4, 2021, has been adopted
with modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 11th day of June 2021.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

A handwritten signature in black ink, appearing to read 'Justin C. Schrader', is written over a horizontal line.

Justin C. Schrader, CFE
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

CENSTAT CASUALTY COMPANY

as of

DECEMBER 31, 2019

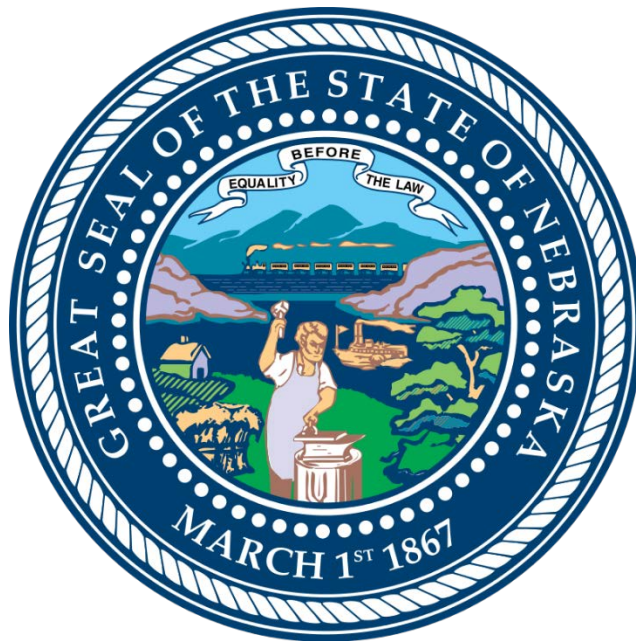


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Omaha, Nebraska
May 26, 2021

Honorable Eric Dunning
Director of Insurance
Nebraska Department of Insurance
1526 K Street, Suite 200
Lincoln, NE 68508

Dear Sir:

Pursuant to your instruction and authorizations, and in accordance with statutory requirements, an examination has been conducted of the financial condition and business affairs of:

**CENSTAT CASUALTY COMPANY
1212 North 96th Street
Omaha, Nebraska 68114**

(hereinafter also referred to as the “Company”), and the report of such examination is respectfully presented herein.

INTRODUCTION

The State of Nebraska last examined the Company as of December 31, 2015. The current financial condition examination covers the intervening period to and includes the close of business on December 31, 2019 and such subsequent events and transactions as were considered pertinent to this report. The State of Nebraska participated in this examination and assisted in the preparation of this report.

The same examination staff conducted a concurrent financial condition exam of the Company’s parent, Central States Health & Life Co. of Omaha.

SCOPE OF EXAMINATION

The examination was conducted pursuant to and in accordance with both the NAIC Financial Condition Examiners Handbook (Handbook) and Section §44-5904(1) of the Nebraska

Insurance Statutes. The Handbook requires that examiners plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including but not limited to: corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and Annual Statement Instructions, when applicable to domestic state regulations.

A general review was made of the Company's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. The Company's history was traced and has been set out in this report under the caption "Description of Company." All items pertaining to management and control were reviewed, including provisions for disclosure of conflicts of interest to the Board of Directors and the departmental organization of the Company. The Articles of Incorporation and By-Laws were reviewed, including appropriate filings of any changes or amendments thereto. The minutes of the meetings of the Shareholder, Board of Directors, and committees held during the examination period were read and noted. Attendance at meetings, proxy information, election of Directors and Officers, approval of investment transactions, and authorizations of salaries were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed, as were plans for employee welfare and pension. Certificates of Authority to conduct the business of insurance in the various states were inspected, and a survey was made of the Company's general plan of operation.

Data reflecting the Company's growth during the period under review, as developed from the Company's filed annual statements, is reflected in the financial section of this report under the caption "Body of Report."

The Company's reinsurance facilities were ascertained and noted and have been commented upon in this report under the caption "Reinsurance." Accounting records and procedures were tested to the extent deemed necessary through the risk-focused examination process. The Company's method of claims handling and procedures pertaining to the adjustment and payment of incurred losses were also noted.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included a review of workpapers prepared by RSM US LLP, the Company's external auditors, during their audit of the Company's accounts for the years ended December 31, 2018, and 2019. Portions of the auditor's workpapers have been incorporated into the workpapers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. This utilization was performed pursuant to Title 210 (Rules of the Nebraska Department of Insurance), Chapter 56, Section 013.

Any failure of items to add to the totals shown in schedules and exhibits appearing throughout this report is due to rounding.

DESCRIPTION OF COMPANY

HISTORY

The Company was organized under the laws of the State of Nebraska and issued a Permit to Complete Organization on May 31, 2002. On May 31, 2002, the Company's Articles of Incorporation were filed and approved by the Nebraska Department of Insurance and filed with the Secretary of State. On August 16, 2002, the Department of Insurance granted the Company a

Certificate of Authority to write Sickness and Accident, Property, Credit Property, Glass, Burglary and Theft, Boiler and Machinery, Liability, Workers' Compensation and Employers Liability, Vehicle, Fidelity, Surety, Credit, Mortgage Guaranty, Marine, Financial Guaranty, and Miscellaneous insurances as prescribed by Neb. Rev. Stat. §44-201 of the Nebraska Insurance Code.

MANAGEMENT AND CONTROL

Holding Company

The Company is a member of an insurance holding company system as defined by Nebraska Statute. An organizational listing flowing from the "Ultimate Controlling Person," as reported in the 2019 Annual Statement, is represented by the following (subsidiaries are denoted through the use of indentations, and unless otherwise indicated, all subsidiaries are 100% owned):

- Central States Health & Life Co. of Omaha (CSO)
 - Censtat Life Assurance Co. (78%)
 - Censtat Casualty Company
 - Censtat Financial, Inc.
 - Censtat Services, Inc.
 - Censtat Reinsurance Company LTD
 - Crescent Properties LLC

Shareholder

Article VI of the Articles of Incorporation provides that, "the aggregate number of shares which the Company shall have the authority to issue is 3,000,000 shares, consisting only of common stock, with a par value of \$1.40 per share." At the date of this examination, 2,500,000 shares were issued and outstanding, and all were owned and held by CSO.

Article II, Section 1 of the By-Laws provides that, "all annual meetings of the Shareholders shall be held at the Principal Office of the Company in Omaha, Nebraska, or at

such other place as determined by the Board of Directors and stated in the notice to Shareholders.” The annual meeting shall be held no later than June 30 of each year every calendar year.

In 2008, the Company received a \$4,000,000 capital contribution from its parent, CSO, at the request of states where the Company requested and received Certificates of Authority in which to sell business. Additionally, in 2008, by Resolution of the Board of Directors, CSO committed to maintaining the capital and surplus of the Company in an amount at least equal to \$10 million in order to continue the Company’s authority to conduct business in the State of California.

On June 30, 2008, the Company issued a \$400,000 stock dividend to the Company’s parent, CSO. No cash dividends have been paid during the period under examination.

Board of Directors

Article III, Section 1 of the Company’s By-Laws provide that, “the property and business of this Company shall be managed by its Board of Directors, the number of which shall be between 5 and 21, as determined from time to time by the Board of Directors. At the first annual meeting of the Shareholders and at each annual meeting thereafter, the Shareholders shall elect Directors to hold office until the next succeeding meeting.” The Board of Directors shall have one regularly scheduled meeting a year, immediately following the annual meeting of the Shareholders.

The following persons were serving as Directors at December 31, 2019:

Name and Residence

Principal Occupation

John E. Kizer
Omaha, Nebraska

Chairman and President of Central States Indemnity
Co. of Omaha

<u>Name and Residence</u>	<u>Principal Occupation</u>
Richard T. Kizer Omaha, Nebraska	Chairman of the Board and Secretary of Central States Health & Life Co. of Omaha and Chairman of the Company
T. Edward Kizer Omaha, Nebraska	President of Central States Health & Life Co. of Omaha and President of the Company
William Michel Kizer Omaha, Nebraska	Director of Central States Indemnity Co. of Omaha
Jeffrey J. Wanning Omaha, Nebraska	Senior Vice President, Operations of Central States Health & Life Co. of Omaha and Vice President of the Company

The Directors listed above also serve as the Company's Audit Committee.

Officers

Article IV, Section 1 of the Company's By-Laws provides that, "the Officers of the Company shall be a Chairman of the Board, a President, Vice Presidents, the number thereof (if any) to be determined by the Board of Directors, a Treasurer and a Secretary, or other Officers as may be elected or appointed by the Board of Directors... Any two or more offices may be held by the same person, except that the President and Secretary shall not be the same person. The Officers of the Company shall be elected annually by the Board of Directors at the first meeting of the Board of Directors held after each annual meeting of Shareholders or as soon thereafter as convenient, and vacancies may be filled at any meeting of the Board of Directors. Each Officer shall hold office until a successor shall have been fully elected and shall have been qualified, or until his death, or until he shall resign or shall have been removed in the manner here provided."

The following is a listing of Officers elected and serving the Company at December 31, 2019:

<u>Name</u>	<u>Office</u>
Richard T. Kizer	Chairman of the Board
T. Edward Kizer	President
Richard T. Magsam	Treasurer, Vice President
Kristine M. Thomas	Secretary
Jaime M. Amodeo	Vice President
Jacquelyn C. McCaslin	Vice President
Jeffrey J. Wanning	Vice President & Assistant Secretary

TRANSACTIONS WITH AFFILIATES

Services Agreement

The Company entered into a Service Agreement with its parent, CSO, effective September 3, 2002. Under the terms of this agreement, CSO will provide all facilities and services necessary relating to underwriting, actuarial studies, claims service, agents' licensing, compliance, regulatory filings, accounting, investment management, tax filing, record keeping, legal services, and other such services mutually agreed upon by the parties.

CSO prepares and furnishes reports relating to services provided as requested by the Company. Premium collected by CSO is held in fiduciary capacity and paid over to the Company immediately following collection.

Compensation for services is on a cost basis, calculated by an allocation of expenses in conformity with customary insurance accounting practices consistently applied, and shall be an amount no greater than the Company would have expended in providing such services for itself. Payment for these services is to be made on a monthly basis as billed by CSO. The Company shall pay CSO, or, at the option of CSO, shall remit payment to other entities designated by CSO.

The initial period of this Agreement is for five years from the effective date. It may be extended for an additional period of time, and upon the terms and conditions of the agreement, or

modified by mutual consent of the parties. The Agreement may be terminated by mutual consent or by either party upon at least 60 days' notice in writing to the other party.

Transactions with Lenders Protection Assurance Company

An administration agreement with Lenders Protection Assurance Company Risk Retention Group (LPAC) provides for administration of LPAC's reinsured policies by the Company. The services provided by the company include claims administration, premium administration, maintenance of books, accounts and records, electronic data processing, policyholder services, finance and accounting, office services, and all services incidental to the administration of the administered policies.

All monies collected by the Company on behalf of LPAC are held in a fiduciary capacity.

The Company has agreed to indemnify, defend, and hold harmless LPAC and its directors, officers, and agents against any action or omission arising out of any of its performances under this Agreement. Likewise, LPAC agrees to indemnify, defend, and hold harmless the Company against any action or omission arising out of its performance of its obligations under this Agreement.

The initial period of this Agreement was for five years beginning on the effective date of September 1, 2002. The original Agreement was amended to automatically renew for successive one-year periods, unless either party provides notice of cancellation at least nine months in advance of the expiration date. This Agreement terminated on December 31, 2016 at the dissolution of LPAC.

Tax Allocation Agreement

The Company is party to a tax allocation agreement with its parent, CSO. Under this Agreement, the consolidated tax liability of the Company and its parent is allocated to the parties

on the percentage the separate return tax bears to the consolidated tax. If for any taxable period the separate liability of either member exceeds the consolidated tax liability as a result of any excess loss or tax credits of either party, the parent shall pay each member its allocated portion of such excess amount.

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificates of Authority, the Company is licensed to transact business in all states, with the exception of the District of Columbia, Alaska, Hawaii, and New York. The Company intends to pursue licenses in additional states.

The Company operates out of the same location as its parent company, CSO, and is managed by the same key officers that manage CSO. The initial marketing plan for the writing of direct business includes marketing through current regional managers of CSO, independent general agents currently contracted with CSO and new general agents in the various additional jurisdictions where the Company may become authorized to write business.

REINSURANCE

Assumed

The Company assumes Contractual Liability Policies (CLPs) from LPAC under a 100% Quota Share Treaty. This agreement was effective September 1, 2002 and automatically renewed on September 1, 2007, per the terms of the contract. The policies under this reinsurance agreement are CLPs issued by LPAC with effective dates of December 31, 2004 and before, with the exception of liability for debt protection products sold through the Secure Pay Plus program with effective dates of January 1, 2005 and after, even though the CLPs were issued prior to January 1, 2005. The ceding fee retained by LPAC is 3% of ceded premium. Effective October 1, 2012, this Agreement was amended to include CLPs issued by LPAC with effective dates of

January 1, 2005 and after, and CLPs sold in connection with LPAC's Secure Pay Plus Program with effective dates of January 1, 2005 and after. The Agreement was terminated effective December 31, 2016 with the dissolution of LPAC.

Ceded

Effective January 1, 2007, the Company entered into a retrocession quota share reinsurance agreement for its CLPs with SWBC RE, Ltd. (SWBC). The amount ceded by the Company is 50% of the risk under each of the reinsured policies. The reinsured policies are those CLPs issued to client customers of SWBC and administered by SWBC.

Effective October 1, 2013, the Company entered into a 50% quota share reinsurance contract with MWD Reins Co., Ltd. The reinsured policies are those mortgage service agreement liability policies issued under policy form MSA-001 for American Title, Inc. as of October 1, 2013. Effective July 1, 2015, all business is reinsured by American Bankers Insurance Company (ABIC), a subsidiary or Assurant. Business reinsured by ABIC is done on a 50% quota share, basis, except for Huntington Bank covered loans over \$500,000, which are reinsured on a 100% quota share basis.

General

All contracts reviewed contained standard insolvency, arbitration, errors and omissions, and termination clauses where applicable. All contracts contained the clauses necessary to assure reinsurance credits could be taken.

BODY OF REPORT

GROWTH

The following comparative data reflects the growth of the Company during the period covered by this examination:

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Bonds	\$21,555,975	\$22,663,806	\$23,375,660	\$24,999,679
Admitted assets	24,518,165	25,253,246	26,700,482	27,779,155
Loss reserves	1,323,004	1,834,626	1,702,415	1,907,144
Total liabilities	7,017,512	7,036,266	7,038,717	7,113,659
Capital and surplus	17,500,654	18,216,980	19,661,766	20,665,496
Premiums earned	2,070,672	2,321,837	2,130,412	1,914,211
Net investment income	700,851	660,256	796,822	845,571
Net income	431,081	737,030	1,435,935	1,090,430

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the State of Nebraska Department of Insurance and present the financial condition of the Company for the period ending December 31, 2019. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements. A reconciliation of the capital and surplus account for the period under review is also included.

FINANCIAL STATEMENT
December 31, 2019

<u>Assets</u>	<u>Assets</u>	Assets Not <u>Admitted</u>	Net Admitted <u>Assets</u>
Bonds	\$24,999,679		\$24,999,679
First liens	366,179		366,179
Cash & cash equivalents	1,060,744		1,060,744
Other invested assets	1,000,000		1,000,000
Receivables for securities	<u>2,525</u>		<u>2,525</u>
 Subtotals, cash and invested assets	 \$27,429,127		 \$27,429,127
 Investment income due and accrued	 162,389		 162,389
Uncollected premiums	101,571		101,571
Other amounts receivable under reinsurance contracts	1,962		1,962
Net deferred tax asset	83,871		83,871
Guaranty funds receivable or on deposit	<u>235</u>		<u>235</u>
 Total assets	 <u><u>\$27,779,155</u></u>		 <u><u>\$27,779,155</u></u>

Liabilities, Surplus, and Other Funds

Losses	\$ 1,907,144
Loss adjustment expenses	107,410
Other expenses	7,875
Taxes, licenses and fees	40,991
Current federal and foreign income taxes	881,636
Unearned premiums	1,527,397
Funds held by company under reinsurance treaties	2,585,767
Payable to parent, subsidiaries and affiliates	55,317
Payable to reinsurers	122
Total liabilities	<u>\$ 7,113,659</u>
Common capital stock	\$ 3,500,000
Gross paid in and contributed surplus	8,000,000
Unassigned funds (surplus)	<u>9,165,496</u>
Total capital and surplus	<u>\$20,665,496</u>
Totals	<u><u>\$27,779,155</u></u>

STATEMENT OF INCOME – 2019

Underwriting Income

Premium earned	\$1,914,211
Losses incurred	943,754
Loss adjustment expenses incurred	46,531
Other underwriting expenses incurred	367,899
Fines/penalties and interest expense	52,901
Miscellaneous expense - administrative fees	<u>346,352</u>
Total underwriting deductions	<u>\$1,757,437</u>
Net underwriting gain	<u>\$ 156,774</u>

Investment Income

Net investment income earned	\$ 845,571
Net realized capital gains	<u>15,299</u>
Net investment gain	<u>\$ 860,870</u>

Other Income

Miscellaneous income - administrative fees	<u>\$ 346,352</u>
Total other income	<u>\$ 346,352</u>
Net income before federal income taxes	\$1,363,996
Federal income taxes incurred	<u>273,565</u>
Net income	<u><u>\$1,090,430</u></u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Capital and surplus, beginning	<u>\$17,055,752</u>	<u>\$17,500,654</u>	<u>\$18,216,980</u>	<u>\$19,661,766</u>
Net income	\$ 431,081	\$ 737,030	\$ 1,435,935	\$ 1,090,430
Change in net unrealized capital gains (losses)	(38,718)	37,767	27,549	(60,560)
Change in net deferred income tax	<u>52,538</u>	<u>(58,470)</u>	<u>(18,699)</u>	<u>(26,139)</u>
Net change for the year	<u>\$ 444,902</u>	<u>\$ 716,327</u>	<u>\$ 1,444,785</u>	<u>\$ 1,003,731</u>
Capital and surplus, ending	<u>\$17,500,654</u>	<u>\$18,216,980</u>	<u>\$19,661,766</u>	<u>\$20,665,496</u>

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$9,165,496, as reported in the Company's 2019 Annual Statement, has been accepted for examination purposes. Examination findings, in the aggregate, were considered to have no material effect on the Company's financial condition.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

No recommendations were made as a result of the previous examination.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

There are no comments or recommendations that have been made as a result of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

There are no comments or recommendations that have been made as a result of this examination.

ACKNOWLEDGMENT

The courteous cooperation extended by the Officers and employees of the Company during this examination is hereby acknowledged.

In addition to the undersigned, Santosh Ghimire, CFE, Michael Sullivan, CFE, Daniel Rousseau, AFE, and John Wiatr, AFE, Financial Examiners; Gary Evans, CFE, CISA, Information Systems Specialist; and Derek Wallman, ASA, Actuarial Specialist; all with the Nebraska Department of Insurance, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



Tadd K. Wegner, CFE
Supervisory Examiner
Department of Insurance
State of Nebraska